



INDONESIA: ENERGY HIGHLIGHTS MAY 2006

Summary

- State electricity company PLN announced on May 16 that a consortium led by Japan's Marubeni Corp. won a tender to build and operate the 600 MW Cirebon power project.
- On May 22, PLN announced a plan to build 24 coal-fired power projects as part of its previously announced "crash program" to add 10,000 megawatts (MW) of generation capacity over the next few years.
- On May 11, PLN's Cilegon Power Plant began to provide power to the Java-Bali grid.
- Power shortages hit the Java-Bali grid again in May as a result of supply disruptions, fuel shortages and mechanical problems.
- State oil and gas company Pertamina raised the price of unsubsidized fuels in May due to high global prices.
- On May 20, Pertamina launched Indonesia's first biodiesel fuel.
- On May 22, Pertamina also signed four gas supply agreements with South Sumatra and West Java buyers.
- On May 2, the French company Eramet acquired Canada's Weda Bay Minerals, majority owner of the Halmahera nickel project in Maluku.
- On May 17, the government raised fertilizer prices by an average of 11 percent.

Note: This report uses an exchange rate of Rp 9,220/USD

Marubeni Consortium Wins Cirebon Power Project

State electricity company PLN announced on May 16 that a consortium led by Japan's Marubeni Corp. won a tender to build and operate the 600 MW Cirebon power project. Other consortium members are South Korea's Komipo and local engineering

firms Tripatra and Samptan. Eleven domestic and international companies reportedly participated in the tender competition, with Marubeni and India's Essar International Group making the shortlist. According to PLN, Marubeni's winning bid was USD 4.363 cents per kilowatt hour (kwh) compared with Essar's final offer of USD 4.402 cents per kwh. The project reportedly will cost USD 600 million and is targeted to come online in 2010.

Crash Power Projects Announcement

On May 22, PLN announced a plan to build 24 coal-fired power projects as part of its previously announced "crash program" to add 10,000 megawatts (MW) of generation capacity to the national power grid over the next few years. PLN aims to build 10 power plants in Java and 14 outside Java, which together would provide an additional generation capacity of 7,140 MW. PLN is targeting all the projects for completion by 2009.

Table 1: Coal Fired Power Projects

No.	Project Name	Capacity (MW)	Location
Java Island			
1.	Jabar Selatan	600	West Java
2.	Jatim Selatan, Pacitan	600	East Java
3.	Labuan	300	West Java
4.	Marunda	600	West Java
5.	Rembang	600	Central Java
6.	Suralaya Baru	1,320	West Java
7.	Teluk Naga	600	Jakarta
8.	Jabar Utara	600	West Java
9.	Tanjung Awar-Awar	600	East Java
10.	Paiton Baru	1,320	East Java
Outside Java			
1.	Meulaboh	130	Aceh
2.	Sibolga Baru	200	North Sumatra
3.	Sumbar Pesisir Selatan	200	West Sumatra
4.	Amurang Baru	50	North Sulawesi
5.	Tarahan Baru	200	Lampung
6.	Mantung	20	Bangka Island
7.	Air Anyer	20	Bangka Island
8.	Timika	14	Papua

9.	Bengkalis	14	Riau
10.	Selat Panjang	10	Riau
11.	Kendari	20	South East Sulawesi
12.	Ende	14	Nusa Tenggara Timur
13.	Asam-Asam	130	South Kalimantan
14.	Bone	30	South Sulawesi

Cilegon Power Starts Operation

On May 11, PLN's Cilegon Power Plant began to provide power to the Java-Bali grid at an initial capacity of 60 MW. The combined cycle power plant is slated to come fully on-stream in December 2006 with a capacity of 740 MW. The Japan Bank for International Cooperation funded the plant construction through a reported USD 345 million loan. Gas supply for the plant comes from the China National Offshore Oil Corporation's (CNOOC) Offshore South East Sumatra Production Sharing Contract (PSC) under a 12 years contract signed in 2004. Cilegon is the second plant to come online in 2006 for the Java-Bali grid following the 600 MW Cilacap plant, which began operation in March. A third plant, the 1,200 MW Tanjung Jati B project, is scheduled to begin operation in June 2006.

Java-Bali Power Trouble

Power shortages hit the Java-Bali grid again in May reportedly as a result of gas supply disruptions, fuel shortages and mechanical problems. Starting on May 19, pipeline leaks cut in half the flow of gas supplies from BP's Offshore North West Java (ONWJ) PSC to the Tanjung Priok and Muara Karang power plants in Jakarta. Tanjung Priok was forced to shut down one of its generators, lowering its operating capacity below 70 percent of normal levels. Consequently, PLN faced a 300 MW power deficit and the extra cost of buying diesel fuel to replace the missing gas feedstock. PLN says it expects the reduced gas supply to persist for at least the next few weeks until BP completes pipeline repair.

Diesel and fuel oil shortages worsened this month and effected operations at the Muara Tawar (Jakarta), Sragi (West Java), Tambak Lorok (Central Java), Grati, and Grissik (East Java) power plants. Intermittent shortages at these plants created a deficit of about 400 MW during the month. On May 23, Paiton Energy also halted operations of one of its 610 MW generators for one day due to an engine problem. PLN partially augmented the overall monthly deficit with new supply from Cilegon. PLN also made a special request to customers to conserve electricity during peak hours (6 pm to 10 pm). During May the Java-Bali grid had an average reserve margin of just 4.4 percent from an installed capacity of 18,683 MW.

Fuel Market Update

State petroleum company Pertamina raised unsubsidized fuel prices in May by an average 6.4 percent, owing to a rise in global crude benchmarks. The company also reportedly halted kerosene imports in May due to increasing stocks and the resumption of processing at the Dumai refinery.

Table 2: Unsubsidized Fuel Price Changes

Fuel Type	Mar-06	Apr-06	May-06	Percent Change*
Transport**				
Pertamax	5,300	5,300	5,800	9.4
Pertamax Plus	5,400	5,400	6,050	12.0
Pertamina DEX	5,800	5,800	6,100	5.2
Industry***				
Premium	4,899	5,099	5,469	7.3
Kerosene	5,320	5,507	5,664	2.9
Gasoil	5,044	5,129	5,512	7.5
Diesel Oil	4,900	4,983	5,327	6.9
Fuel Oil	3,604	3,673	3,662	-0.3

*Percent change between April 2006 and May 2006.

** Pertamax and Pertamax plus are unleaded gasoline fuel with 92 and 95 octane level respectively. Pertamina DEX is a Euro 2 standard diesel fuel. All fuels are available at regular retail outlets. Quoted prices are valid for Java Island.

*** Industry wholesale price.

Table 3: Fuel Consumption (in million liters)

Month	Premium	Gasoil	Kerosene	Diesel Oil	Fuel Oil	Total
Oct 05	1,290	2,081	906	75	595	4,948
Nov 05	1,390	2,208	788	43	300	4,729
Dec 05	1,408	2,277	836	44	328	4,883
Jan 06	1,340	1,862	798	51	415	4,466
Feb 06	1,224	1,885	784	47	343	4,283
Mar 06	1,365	2,016	841	53	289	4,569
Apr 06	1,290	1,925	798	45	202	4,260

Note: 2006 provisional figures; MIGAS

In a sign of the beginning of competition in the retail fuel industry, on May 1 Pertamina announced it would sell its Pertamax and Pertamax Plus fuel at an approximate 13 percent discount- IDR 5,000 (USD 54 cents) and IDR 5,300 (USD 57 cents) respectively-at five retail fuel stations in the greater Jakarta area. The company

said it took the decision due to the presence of direct competition from Shell or Petronas stations in those neighborhoods.

Pertamina Starts Biofuel Distribution

On May 20, Pertamina began selling the country's first biodiesel fuel, Bio-Solar, at selected fuel stations in Jakarta. Biosolar is also known as B-5 biofuel and contains 95 percent diesel fuel and five percent Fatty Acid Methyl Ester (FAME), which is derived from the processed extract of crude palm oil (CPO) or the seeds of *Jatropha Curcas* plants. Currently Pertamina sources its biodiesel supply from the Gresik, East Java plant of local chemical producer Eterindo Wahanatama. Pertamina is also developing its own biodiesel plant at the Balongan refinery, West Java. The company set the Biosolar price identical to regular subsidized diesel fuel price at IDR 4,300 (USD 47 cents) per liter.

Gas Supply Agreements Signed

On May 22, Pertamina signed four gas supply agreements with West Java and South Sumatra buyers. The agreements, which ranged from five to 10 years in duration, have a combined volume of 66.9 trillion british thermal units (TBTU) with a reported value of USD 181.6 million. During the same occasion, Indonesian gas producer EPIC Sengkang signed a Memorandum of Understanding (MOU) with state owned mining company PT Aneka Tambang (Antam) and Lapindo Brantas signed a MOU with Indogas Kriya Dwiguna.

Table 4: Gas Contract Signing

Suppliers	Buyers	Contract Type	Contract Volume (TBTU)	Value	Years
Pertamina	Pura Daya Prima	GSA	13.7	38.2	11
Pertamina	Elnusa Prima Elektra	GSA	6.2	16.1	10
Pertamina	Tata Jabar Sejahtera	GSA	43.7	121.2	10
Pertamina	Rabana Gasindo	GSA	3.4	6.1	5

Eramet Acquires Weda Bay Minerals

On May 2, French concern Eramet S.A announced its acquisition of Canada's Weda Bay Minerals Inc, 90 percent shareholder of the Halmahera Nickel Cobalt Project in Maluku. Eramet reportedly will spend up to USD 1.5 million to develop a mining and processing facility at the Halmahera nickel mine over the next 5 years. The Directorate of Coal and Mineral Resources in the Ministry of Energy and Mineral

Resources, estimates that the area contains nickel reserves of 60 million tons with proven reserves of 18 million tons. The company plans to build a processing facility with a capacity of 60,000 tons per year, making it the country's second largest nickel mining project after Newmont's Batu Hijau mine in Nusa Tenggara. The remaining 10 percent interest in the project belongs to state mining company PT Antam, the country's largest nickel producer.

Government Raises Fertilizer Selling Prices

The Government of Indonesia announced its decision to raise fertilizer prices by an average 11 percent through Ministry of Agriculture Decree 17/2006, issued on May 17. Since the government last increased fertilizer prices in 2003, oil prices have reached record highs and natural gas prices have more than doubled. Uncertainty of gas supply is a serious issue for the industry as previous contracts are expiring and producers prefer to export their gas.

Table 5: Fertilizer Price Changes (IDR/Kilogram)

Type	2003	2006	Percent Change
Urea	1,050	1,200	14.3
SP-36	1,400	1,550	10.7
ZA	950	1,050	10.5
NPK	1,600	1,700	9.4